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TO RUEHC/SECSTATE WASHDC PRIORITY 2518
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RUEHLB/AMEMBASSY BEIRUT 2838
RUEHEG/AMEMBASSY CAIRO 3639
RUEHDM/AMEMBASSY DAMASCUS 3872
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RUEHTV/AMEMBASSY TEL AVIV 1168
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SENSITIVE
SIPDIS

FOR EEB/TPP/ABT/ATP (SPECK), NEA/RA, AND NEA/ELA

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TAGS: [EAGR](#) [EAID](#) [ECON](#) [PGOV](#) [JO](#)

SUBJECT: IMPACT OF RISING FOOD/COMMODITY PRICES -- JORDAN

REFS: STATE 39410

1. (U) SUMMARY. Jordan is a net importer of food, and the global increase in food and agricultural commodity prices could not have come at a worse time. Jordan recently embarked on an ambitious economic reform program, buying back debt to lower debt service and eliminating fuel subsidies. Add to these moves recent price increases in commodities such as wheat and rice, and the result is serious budgetary strains. The GOJ responded to the food crisis by eliminating taxes on a number of staples, opening up government stores to all citizens, and making cash payments to the neediest. Rising inflation, stagnant salaries, and ever-increasing fuel prices, however, will soon begin to undermine the cost-saving measures. Jordan has requested the U.S. consider reinstatement of PL-480, assistance to defray the high transportation costs of American wheat, and emergency credit programs for the purchase of wheat and rice. Post believes that better use of the U.S.-Jordan Free Trade Agreement could ward off food shortages with benefits for both countries.

Demand

2. (U) Food accounts for 40 percent of most Jordanian household budgets, which have been hit hard by rising worldwide food costs. A resource-poor country, Jordan is a net importer of food with 100 percent of certain consumable items imported from abroad, including staples such as sugar, rice, powdered milk, tea, coffee, and palm oil. Ninety percent of wheat, corn, cheese, chick peas, vermicelli, lentils, and barley are imported as well. Prices for all items have increased significantly, led by wheat whose price jumped 300 percent in the past year. Accordingly, Jordan's import costs for food, live animals, and animal feed have also skyrocketed.

3. (U) As prices have increased, Jordan's purchasing power has dropped by 25 percent, a result of the decrease in the value of the U.S. dollar to which the Jordanian Dinar is pegged. Further complicating matters for Jordanian citizens are increases in fuel, electricity, and water due both to global price increases and the February 2008 decision to eliminate almost all remaining fuel subsidies. Despite salary increases for some public sector employees and cost of living adjustments in the private sector, many citizens are faced with difficult decisions regarding consumption patterns. Sales of subsidized bread have increased, more middle class consumers are shopping at government commissaries, wholesalers are increasingly operating on a cash basis due to a high percentage of bounced checks, and tribes in Salt signed an "honorary decree" vowing to hold less lavish wedding celebrations. There are also anecdotal reports of increased dumpster-diving.

Supply

¶4. (SBU) Local agricultural production is insufficient to meet Jordan's needs. Rising fertilizer costs and the effects of a January frost have further impacted the ability of farmers to supply fresh produce. For most items, supply has not significantly dwindled, but prices are up and quality has deteriorated. For rice, however, there are growing concerns about an impending shortage. Jordanians consume annually 135,000 tons of rice of which 40 percent historically came from Egypt, 40 percent from the U.S., and the balance from other countries. Local traders report a one month waiting list to simply book shipments from the U.S. To forestall severe shortages, the GOJ concluded a deal with Egypt to purchase 7,000 tons of rice originally slated for Syria, and mandated approval from the Ministry of Industry and Trade (MOIT) for the re-export of rice as well as sugar, pulses, and eggs.

¶5. (SBU) There is also a perception that USG purchase of fresh produce and other items (eggs, soft drinks, milk, juices, chips, ice cream and some breads/cakes) for forces in Iraq have further contributed to rising prices and some shortages. In fact, average monthly expenditures by the U.S. military are \$1.5 million and have not negatively affected local stocks.

Political Impact

¶6. (SBU) While grumbling is widespread, Jordan has not seen significant public protests, let alone violence, as a result of rising commodity prices. The lack of public protest is largely a result of decisive moves (both politically and economically) taken by the government to blunt the impact of inflation. As a result, a recent study by the Center for Strategic Studies at the University of Jordan showed a continued strong favorability rating for PM Nader al-Dahabi's government after 100 days in power. The same poll, however, showed that only 36 percent of Jordanians believe that the government is capable of controlling rising prices. Fifty-four percent of respondents indicated that their economic situation had worsened in the past three years.

¶7. (SBU) The quietude is also in part a function of government efforts to tamp down public airing of economic grievances. While the economic strains, and the government's economic policy, are debated openly in the media, since December 2007 the Governor of Amman has denied several requests by political parties and professional associations (often led by the opposition Islamic Action Front and its proxies) to hold protests against the handling of the economic situation. Similarly, think tank Al-Urdun Al-Jadid Research Center was denied permission to hold an academic forum in which strategies to deal with rising commodity prices would have been discussed. The denials of these requests have raised some eyebrows in the media, but produced little in the way of political reaction.

¶8. (U) Rising commodity prices in Jordan are impacting the entire society - no one ethnic group or class has been affected more than another. The government's economic rhetoric, however, has primarily focused on moderating the impact of rising prices on the rural poor, who are primarily East Bankers. Biofuels and agricultural biotechnology are not a common subject of public discussion in Jordan.

Economic Impact

¶9. (U) Inflation, led by increases in fuel and food costs, has steadily risen since the beginning of the year, reaching 10.8 percent for the first quarter. GOJ measures to maintain a steady food supply have necessitated a \$700M budget supplemental. Ministry of Finance officials report that fuel taxes and foreign grants are expected to pay for the supplement so that the GOJ does not increase its current deficit of \$1 billion. While GOJ efforts to address rising food prices have been welcomed by consumers, food traders and small businessmen complain government intervention is detrimental to their companies. The head of the Poultry Farmers Union speculates that the exemption for frozen poultry will lead to the closure of at least 1,000 local poultry farms due to their inability to compete with cheap imports from Brazil. Ministry of Agriculture and

MOIT officials counter that there are distinct markets for imported, frozen chicken and fresh poultry.

Environmental Impact

¶10. (U) Jordan, already one of the world's most water-poor countries, is facing a drought and water supplies to Jordan Valley agriculture have been cut by 50 percent in 2008. Permanent crops such as citrus, grapes, date palms, and bananas claim the majority of limited water resources, resulting in a 50 percent reduction in the production of vegetable and cereal crops. This has further decimated local agriculture which has been struggling to overcome a January frost that wiped out entire crops. Additionally, arable and forestlands have been damaged by illegal logging. Following the elimination of remaining fuel subsidies, there has been an increase in logging as individuals cut down trees to use in home heating.

Government Policy Response

¶11. (U) The GOJ has instituted a number of measures in response to rising food prices:

- abolishing customs fees and sales tax on 13 common foodstuffs (sugar, rice, powdered milk, cheese, tea, coffee, palm oil, chick peas, vermicelli, wheat flour, corn flour, and lentils) as well as frozen meat and chicken, and feed corn;
- lowering the prices of 56 "essential items" sold by the Civil Service Consumer Corporation;
- calling on the private sector to correspondingly reduce the prices of these products and limit their profit margins "as a matter of national responsibility;"
- establishing parallel markets for the sale of fruits and vegetables directly to consumers;
- requiring government commissaries to sell at cost;
- encouraging importers to establish indicator prices for basic foodstuffs to thwart price-gouging;
- implementing a \$424M social safety net program to assist the neediest citizens; and
- raising taxes on luxury items such as cigarettes and alcohol.

¶12. (U) MOIT is also considering importing eight basic commodities to be sold to consumers at cost plus a minimum mark-up to cover transportation and administrative expenses. Furthermore, the cabinet formed a committee representing the Ministry of Finance, the Central Bank of Jordan, and MOIT to hedge wheat purchases effective July 1. If successful, the program may be expanded to cover barley.

Impact on Post Programs

¶13. (U) Rising prices have further exacerbated problems in Post's already limited ability to recruit and retain local staff due to low compensation levels. To date, Post has not been able to match salary increases offered by the private sector and international organizations. In February two candidates turned down offers to be a telephone operator before the third choice accepted. In January, a newly opened regional office went through two offers of employment before finding someone to accept. Likewise, Post is facing challenges in filling professional-level USAID positions, a trend which would have a negative impact on development assistance programs.

¶14. (U) In addition, of the 23 non-retirement voluntary resignations in 2007, 57 percent cited better salary elsewhere as the reason for leaving the Embassy. Thirty-nine percent of all LES employees now have loans from the Embassy's Provident Fund. Just since the beginning of the year, the Human Resources Office has issued employment and salary verification letters to 20 percent of all LES employees, an indication of the number of employees who are seeking additional outside bank loans to survive. Local price increases have also forced the American Embassy Community Services Association (AESCA) to raise prices on many food items at the Embassy cafeteria where a majority of American and LES eat lunch. LES protested

attempts earlier in the year to raise prices.

Policy Proposals

¶15. (SBU) The GOJ has been proactive in devising strategies to limit the impact of rising world fuel and energy prices on its population.

Post further endorses GOJ efforts to replace broad subsidies which have benefited all residents, with programs tailored to meet the needs of the most disadvantaged. Such programs, however, require money and the GOJ has requested increased and more predictable foreign assistance so that it can free up resources to address emergency situations. MOF officials have made discreet inquiries about reinstatement of PL-480 for the purchase of U.S. wheat or assistance to defray transportation costs of American wheat. Other GOJ officials have called for limited, emergency credit programs for the purchase of wheat and rice.

¶16. (U) A longer term solution for Jordan's food needs, with benefits for the U.S., is better use of the U.S.-Jordan Free Trade Agreement (FTA). In 2007, of its total annual consumption, Jordan imported only \$150M in food and agriculture products from the U.S., one-tenth of agricultural imports. The FTA, dinar-dollar peg, and Jordan's political stability are all good arguments in favor of increased agricultural and commodity trade, particularly for dairy products, feed, and de-boned meat. One significant obstacle, however, remains the small size of the market. With Jordan's population of only 5.7M and a GDP of approximately \$11B in 2006, many American suppliers consider the market too small.

Recent Reporting on Food and Commodity Issues

Amman 1149 - GOJ Works to Lessen Impact of Continued Inflation: Cutting Prices and Taxes on Key Commodities

Amman 1034 - Jordan's Grain Subsidy Program: Insiders Call for Cash Payments to the Needy to Replace Market Distorting Subsidies

Amman 1030 - Poll Shows PM's Popularity Steady Despite Economic Worries

Amman 816 - Livestock Identification Program Underway to Provide Accurate Data and Improve Health Standards

Amman 815 - Nearly Seven Percent Inflation in One Month Reflects Fuel Price Increases

Amman 670 - Rising Prices Reinforce View among Some that Amman Is the Most Expensive City in the Middle East

Amman 518 - Jordan to Compensate Farmers for Crop Losses Due to Recent Frost

Amman 409 - Jordan Prepares for Potential Summer Drought -- Again

Amman 407 - Jordan's Subsidy-Free Budget Signed into Law; Price Increases and Demonstrations Expected

Amman 26 -- GOJ Eliminates Customs Duties and Taxes on 13 Food Items in Response to Rising Costs

07 Amman 3813 - King Calls for Lower Food Prices during Ramadan

Visit Amman's Classified Web Site at
<http://www.state.gov.sgov.gov/p/nea/amman/>

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